P-999/CI-87-696 ORDER CLARIFYING ORDER OF FEBRUARY 17, 1988 AND DENYING PETITION FOR INVESTIGATION

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Don Storm	Chair
Cynthia A. Kitlinski	Commissioner
Dee Knaak	Commissioner
Norma McKanna	Commissioner

In the Matter of the Non-Traffic Sensitive Cost Recovery Study Committee's Report Examining Alternatives to the Carrier Common Line Charge

ISSUE DATE: February 18, 1992

DOCKET NO. P-999/CI-87-696

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PROCEDURAL HISTORY

I. Proceedings to Date

On February 17, 1988 the Commission issued its ORDER ADOPTING COMMITTEE RECOMMENDATION in the above-entitled docket. In that Order the Commission accepted and adopted the recommendation of a committee appointed to evaluate methods for local exchange companies to recover non-traffic sensitive costs for switched access services. The adopted recommendation was set forth in the Order as follows:

> . . . any reduction in the revenues recovered through the CCL [Carrier Common Line] charge as a result of the intraLATA toll access compensation proceeding, Docket No. P-999/CI-85-582, or any other proceeding, would be implemented such that there would be a decrease in the CCL charge applied to originating minutes and a smaller decrease to the CCL charge applied to terminating minutes. Specifically, the amount of money available to reduce the residual revenue total should be split between originating versus terminating on a two to one ratio.

On July 16, 1991 the Department of Public Service (the Department) filed a petition for clarification of the February 17 Order, or in the alternative, for a Commission investigation of the reasonableness of U S WEST's Carrier Common Line Charge (CCLC) in light of recent reductions in the CCLCs of three local exchange carriers. The petition stated it might also be appropriate to investigate the reasonableness of all interexchange carriers' intrastate toll rates in light of these reductions.

On August 6, 1991 U S WEST filed comments urging denial of the petition. On August 30, 1991 the Commission issued a notice, served on all Minnesota telephone companies, soliciting comments on the petition. On September 20, 1991 the Department filed supplementary comments. On the same date, MCI Telecommunications Corporation filed comments opposing an investigation into the effects of CCLC reductions on intrastate toll rates.

The matter came before the Commission on January 28, 1992.

FINDINGS AND CONCLUSIONS

II. Commission Action

The Commission will grant the petition for clarification and deny the petition for investigation, for the reasons set forth below.

A. Clarification

The Commission finds that the February 17 Order examined alternative approaches to allocating reductions in the revenue to be recovered through the CCLC between originating and terminating minutes of use and adopted a general strategy for future CCLC reductions. It also adopted a specific (and different) strategy for allocating CCLC reductions resulting from the docket at issue, In the Matter of a Summary Investigation Into IntraLATA Toll Access Compensation for Local Exchange Carriers Providing Telephone Service Within the State of Minnesota, Docket No. P-999/CI-85-582.

The Order did not require any particular CCLC reductions in the future; it merely adopted general guidelines for allocating any future reductions between the CCLCs for originating and terminating minutes of use. The February 17 Order, then, does not require any reductions in the CCLC of U S WEST or any other local exchange carrier.

B. Proposed Investigation

In the alternative, the Department asked the Commission to open an investigation into whether U S WEST should be required to reduce its CCLC to reflect recent reductions in the CCLCs of GTE Minnesota (GTE), East Otter Tail Telephone Company (East Otter Tail), and Mankato Citizens Telephone Company (Mankato Citizens). The Department also suggested the Commission consider expanding that investigation to consider whether intrastate toll rates should be reduced to reflect these CCLC reductions. The Commission finds that an investigation is unnecessary at present.

Clearly, the CCLC reductions of GTE, Mankato Citizens, and East Otter Tail represent actual cost reductions for U S WEST and other companies carrying toll traffic to and from exchanges served by these three companies. The Commission does not act to reduce rates each time a regulated company experiences a cost reduction, however. It is understood that cost increases and cost decreases occur between general rate cases (or price list filings) and roughly offset one another. When a major cost change alters the fundamental assumptions on which rates were based, as when the Tax Reform Act of 1986 took effect, the Commission does initiate proceedings to adjust rates. Barring changes of this magnitude, however, the Commission relies on the normal regulatory process to adjust rates to reflect cost changes in the aggregate and does not adjust rates for cost changes on a piecemeal basis.

The CCLC reductions at issue are not large enough to justify rate adjustments outside the normal process. For U S WEST, the company most affected, total cost reductions are estimated at $1,130,000. At the same time, however, that company expects to incur additional costs when some of the independent local exchange companies for whom it carries toll begin using centralized equal access services from the Minnesota Independent Equal Access Corporation. It is reasonable to assume other toll carriers are facing offsetting cost increases, too. The Commission therefore sees no need to give further consideration to a stand-alone rate adjustment to reflect reductions in the CCLCs of GTE, East Otter Tail, and Mankato Citizens.

Finally, the Commission agrees with U S WEST that adjusting its rates for this cost decrease would be inconsistent with the terms of the incentive plan under which it operates. After argument by all parties and careful consideration, the Commission eliminated pass throughs from the incentive plan, finding as follows:

> The Commission will eliminate pass throughs on reconsideration.
>
> There were two primary reasons for the pass through provisions of the June 7 Order. One was Commission reluctance to force the Company, over its protests, to absorb cost increases beyond its control. This concern was eliminated by the Company's request to eliminate the pass through provisions of the Order. The other was to prevent windfalls to the Company from cost reductions for which it could take no credit. This concern can be met by other means; in this case, by a modest reduction in the sharing threshold, discussed later.

> Furthermore, as the Company and the RUD-OAG have pointed out, eliminating pass throughs will increase rate stability under the plan and prevent expensive, time-consuming pass through proceedings before the Commission. Rate stability is one of the primary benefits of incentive plan regulation, and one the Commission is pleased to further. Eliminating pass through proceedings will conserve the resources of the Company, the Commission, the intervenors, and other potentially interested parties. It will reduce regulatory costs for ratepayers and further the statutory goal of minimizing day-to-day regulation of companies operating under incentive plans. For all these reasons, the Commission will grant the request of the Company and the RUD-OAG to eliminate pass throughs under the plan.
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> <u>In the Matter of Northwestern Bell Telephone Company's, d/b/a U S West Communications, Proposed Incentive Regulation Plan</u>, Docket No. P-421/EI-89-860, ORDER AFTER RECONSIDERATION AND CLARIFYING ORDER OF JUNE 7 (September 17, 1990), at 3.

The Commission is convinced that the reductions proposed by the Department would be inconsistent with the provisions of the September 17 Order.

ORDER

1. The Department of Public Service's petition for clarification is granted and the February 17, 1988 Order at issue is clarified as set forth above.

2. The Department of Public Service's petition for a Commission investigation is denied.

3. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Richard R. Lancaster
Executive Secretary

(S E A L)